Glossary

WVR – Workforce Vitality Report
WVI – Workforce Vitality Index

The *ADP Workforce Vitality Report (WVR)* provides insights on labor market dynamics as well as benchmarks to measure human capital management for individual firms. The report includes details of the *ADP Workforce Vitality Index (WVI)* and its components.

The *ADP Workforce Vitality Index (WVI)* represents total wages paid to the U.S. private sector. The index has been calculated by combination of geography, demography, and firm specific characteristics. Quarter 3 of 2013 is set as the base for the index (WVI Q32013=100).

The WVI distinguishes four types of workers in the labor market: job holders, job switchers, entrants, and leavers.

1. Holders: those who stay with the same firm quarter t and, t-1 and/or t-2
2. Switchers: those who change jobs quarter t-1 to another job in quarter t
3. Entrants: those who are newly hired by a firm
4. Leavers: those who left the firm either voluntarily or involuntarily

Five indicators:

1. CHANGE IN HOURLY WAGE RATE:

   A) Job Switchers: Change in hourly wage rate between the new job and the old job. This is a unique indicator not available from government sources. The initial wage offer is more sensitive to labor market conditions compared with wages of job holders. A higher wage offer is often a result of a tighter niche labor market where employers compete for talent. The ability of job switchers and in particular a specific job switcher defined by age, tenure, gender, pay scale, industry and region to command a higher wage is of particular importance for HCM. For example, the wage change for job switchers between minimum wage earners and high income switchers can be very different. While the former may be hard pressed to find better paying new jobs, the latter can boost their wages by moving to a new position. This indicator is positively related to WVI change.

   B) Job Holders (group): Change in wage rate between period t and t-1 for job holders. The composition of job holders may not be same between these two periods. For example, employee A, who was part of the job holder group a year ago may not be in job holder's group now whereas employees who came to job market sometime during the year is part of the job holder group now. An improving labor market will eventually increase the pay of job holders as employers use monetary incentives to retain talent and raise productivity. Both the turnover rate and the change in hourly wage rate for job switchers are likely to lead changes in the hourly wage rate for job holders. However, workers in specific dimensions, such as particular industries or wage levels, may be able to bargain for higher wages sooner in the business cycle than workers in other dimensions. Change in hourly wage rate for job holders is positively associated with WVI change.

C) Job Holders (individual): Change in wage rate when the set of job holder are kept constant between two time periods. This definition of wage rate growth gives a truer picture since this is a purer form of wage rate calculation without diluting the set with incoming and outgoing job holders from the group. In general, this change in wage rate is higher than the group method above. In the group method if highly paid workers are leaving to retire, for example, the aggregate wage growth will weaken because these are likely higher paid workers. An establishment could be replacing retiring workers with younger, less experienced workers who are earning less than the retiring workers.

2. CHANGE IN HOURS WORKED: This variable characterizes the degree of labor utilization. When a specific labor market is sluggish, weak demand causes under-utilization of labor. When the specific labor market picks up, working hours increase as production expands. Hours worked have leading properties as workers in certain industries or wage scales or parts of the country may be putting in more hours sooner in the business cycle than other workers. In addition, firms that employ high-skilled workers tend to retain their employees by cutting working hours during the downturn so as to avoid the search and rehiring costs when the economy rebounds. As such, fluctuations in hours worked vary across industries with different concentrations of skilled workers. This variable and WVI change are positively related.

3. TOTAL EMPLOYMENT GROWTH: As a widely watched labor market indicator, employment growth is the fundamental measure of labor market vitality. Higher employment means more job opportunities for job seekers and more competition among employers. This too can be disaggregated for different dimensions. While this component is readily available from government sources, growth in combined dimensions is less readily available. Rapid total employment growth drives up WVI growth.

4. TURNOVER RATE: The percentage of workers who successfully changed their jobs in consecutive quarters. In contrast to the separation and quits rates reported by the BLS, the turnover rate gives a clear indication of labor market conditions by isolating those workers who successfully changed their jobs and excluding

those whose departure was due to retirement or company closure or who dropped out of the labor force. Because the majority of those who land a new job left the previous job voluntarily, the job switch rate increases when labor market conditions improve. However, the job turnover rate is not uniform across different workers. Rather, this component is of particular interest in distinguishing labor market conditions for different dimensions of workers to ascertain whether, for example, higher or lower wage workers are switching jobs, whether workers of a certain age or tenure on the job are switching or staying put, or whether workers in certain industries or certain regions of the country are switching jobs. A higher turnover rate does not necessarily lead to a higher WVI. The positive relationship holds only when the job switchers' wage increase is significantly higher than job holders' wage growth.

Dimensions

1. Region: Northeast, Midwest, West and South
2. State: New York, New Jersey, Pennsylvania, Texas, Florida, California, Illinois, Washington, Michigan and Ohio
3. Industry(NAICS code): construction (23), manufacturing (31, 32, 33), trade and transportation (42, 44, 45, 48, 49, 22), finance/real estate/ (51, 52,), information (53), professional services (54, 55, 56), education & healthcare (61, 62), leisure & hospitality (71, 72), resource and mining (21) other services except public services (81)
4. Firm size: 1-49, 50-499, 500 and above (for US, 500 and above is further narrowed down to 500-999 and 1000 and above)
5. Age: 16-24, 25-34, 35-54, 55 and above
6. Gender: male and female
7. Full and part time: Full-time workers are defined as those whose weekly hours is greater and equal to 35
8. Wage tier: based on annual wage; less than 20K, 20K-50K, 50K-75K, 75K and above (upper bound excluded)
9. Tenure: less than 3 years, 3-5 years, 5-10 years and 10 years and above (upper bound excluded)

In addition to individual dimensions, ADP Research Institute also produces WVI and its components at many cross dimensional levels. The choice of the combination of the basic dimensions is determined by the data availability and quality. A full list of the coverage is as follows:

1. For US, four regions, New York, New Jersey, Pennsylvania, Texas, Florida, California and Illinois
    a. Aggregate
    b. 10 industries
    c. 3 sizes (4 for US)
    d. 30 industry by size (40 for US)
    e. 4 age groups

f. 40 industry by age
g. 2 gender groups
h. 20 industry by gender
i. 2 full time and part time groups
j. 20 industry by full/part time
k. 4 wage tiers
l. 40 industry by wage tiers
m. 4 tenure groups
n. 40 industry by tenure